Financial Institutions

Environment and Labour

Insurance And Your Non-Profit Organization

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Introduction

Insurance is a concern of non-profit organizations in Nova Scotia. If you are involved in a non-profit organization or organize community events, you need to know how to get the insurance coverage you need at a price you can afford. This brochure will help you make the right insurance decisions.

By giving freely of their time and talents many Nova Scotians enrich their communities. But we are living in a time when people are increasingly willing to consider litigation when they think they have been unfairly treated or hurt in some way. That means non-profit organizations must protect their organizations and their volunteers from claims. You can do this with insurance.

What is insurance?

Insurance is a contract between you and your insurer. This contract protects you against financial losses from specific risks. Different kinds of insurance cover different kinds of losses. Damages to property, injury to others, and defense costs are the main areas. When you pay an insurance premium, your money is placed into a pool of money along with other policyholders. That pool is then used to reimburse the claims of the few who have the misfortune to have an insurance claim.

How Does It Work?

An insurance company collects money, called premiums, from all of its clients and uses that money to settle the claims of those clients who suffer losses.

What is a premium?

A premium is the money you pay to your insurance company for coverage.

How are premium costs determined?

Many factors go into determining the size of the premium. Basically, the insurance company uses statistics and research from operations similar to yours to estimate how great the risk is that your operation will have a claim and what the cost of that claim will be. The greater the risk of loss, the higher the premium.

Remember it is the insurance company's statistics that determine your rates. Your event or organization may never have had a claim or a problem, but your premiums will probably be based on the more global statistics your insurer has on file for similar events.

Is insurance required?

No, non-profit organizations are not *required* to have any insurance to operate in Nova Scotia, except, of course, for compulsory automobile insurance. Insurance is strongly recommended, though, as financial protection against many kinds of losses.

Who needs it?

Every group and organization should look at their need for insurance. If your organization uses volunteers, you should make sure that both the organization and the volunteers are protected against potentially crippling lawsuits. Not all face the same level of risks or require the same kinds of insurance. Larger non-profit organizations will have professional staff to deal with this. It is the smaller non-profit organizations that need to become aware of insurance needs. Even if you are

putting a group together to organize a one-time event, you need to examine the risks to which you are exposing yourself and your organization.

Level of risk

Different non-profit groups have different liability issues and insurance needs. Insurance is based on a variety of factors including risk. If you are a newly formed organization or temporary group, you will have to consider risk before you purchase insurance. Even a temporary volunteer group put together for a single event may need event insurance.

What is risk management?

Everything has some element of risk to it. If we seek to avoid all risk nothing would ever happen. Assessing the risks that might be associated with your event, activity, or program and taking actions to minimize them is essential in reducing your exposure to loss or third-party liability. This is called risk management. Risk management is the key to getting the right insurance for your organization or event.

Start by answering three basic questions:

1 What can go wrong?
2 What will we do, both to prevent an accident and to respond to one?
3 If something happens, how will we pay for it?

Once you have determined the risks (Question 1) you do what you can to prepare (Question 2). Some preparations may be as simple as nailing down a loose board or filling in a hole on a playing field. Other preparations may be more complex such as arranging for on-site security and first aid or screening volunteers.

These steps are all part of your risk-management strategy. In preparing your strategy you need to be sensitive to risks without paralyzing your organization. It is a good idea to put a specific person or group in charge of risk management for your organization or event. Risk managers must be aware of the risks facing your non-profit organization. In preparing their plan they should

- get help from your insurance representative
- examine previous claims
- meet with the owner of facilities used by your group to discuss risks and insurance needs
- check with groups similar to yours and with umbrella organizations
- encourage suggestions and study user complaints

Together your risk manager and your insurance representative can prepare an answer for Question 3. If you have questions about your policy, ask for an answer in writing. Remember even though non-profit organizations may not be seen as a promising target for lawsuits, some of your sponsors, partners, or board members might be. Be prepared to accept some risk. Try to share that risk with others by having them sign contracts, waivers, or permission slips. Make all your staff aware of risk management and encourage them to report possible risk problems right away.

While all accidents are preventable they still occur. If an incident occurs with your organization investigate it promptly. Be courteous and sympathetic and write everything down including names and numbers of victims and witnesses. It's a good idea to have a camera on site to photograph any accident scene.

Property Insurance

Your property insurance should protect you from a wide variety of losses to buildings or other property your group owns. If you lease your premises, check with your landlord to see if any coverage is already provided. It is also a good idea to have your insurance agent or broker look over your lease. Many leases shift all liability for losses, however caused, onto the tenant.

Don't forget that your property also includes your tables, desks, chairs, and office equipment. You should know what you own and what it would cost to replace. Create an itemized list or videotape of your organization's assets and their replacement value. Then decide which assets you actually want to insure and for what value.

In some cases, you may decide against insuring a particular item because the cost of the premium is more than what the item is worth to you. In other cases, the premium may be well worth paying. Ask yourself, if this equipment, such as a computer, was stolen, would we be able to afford to replace it? If the answer is no, you should insure it. It's a good idea to put some money aside to pay for those minor items that you haven't insured.

Liability Insurance

Liability insurance helps protect your organization from claims made by persons hurt on your premises or at your activity or whose property sustains damage because of your event. Liability exposures exist all over your organization, at every location. As the concept of personal responsibility continues to deteriorate in today's society organizations need general liability coverage to protect themselves from the costs of claims arising from both on-premise accidents and program activities.

Awards for successful liability claims are rising in Nova Scotia. Also the range of persons named in such lawsuits is expanding. The personal assets of your directors and board members may even be at risk. Your liability coverage should provide for both legal costs and settlements.

Even with the Volunteer Protection Act in Nova Scotia you should confirm with your broker that your volunteers are protected under your general liability coverage for acts they perform on behalf of your organization.

Volunteer Protection Act

The Volunteer Protection Act is new legislation in Nova Scotia. The level of protection it provides has not yet been tested by the courts. It protects volunteers, but it also underlines the fact that non-profit organizations are responsible to make sure their volunteers and officials are properly trained and screened.

The following issues are ones your organization should keep in mind:

- Are your volunteers screened to protect children and others from harm?
- Does your organization check motor vehicle records for all staff and volunteers who are driving on its behalf?
- Does your organization provide its board with orientation and training materials?
- Do you abide by labour and human rights laws in your employment practices?
- Are your volunteers properly trained?

The legislation states that volunteers working for non-profit organizations are not liable for damages they cause as long as they are acting within the scope of their responsibilities

and were properly licensed, certified, or authorized, (if required by law).

Volunteers are not protected if

- the damage was caused by willful, reckless, or criminal misconduct or gross negligence by the volunteer
- the damage was caused by the volunteer while operating a motor vehicle, vessel, aircraft, or other vehicle for which the owner is required by law to maintain insurance
- the act or omission which caused the damage constitutes an offence
- the volunteer was unlawfully using or impaired by alcohol or drugs at the time of the damage

In cases like those listed above, most private insurance will **not** cover you, with or without the Volunteer Protection Act. It is, therefore, critical that your volunteers know their responsibilities and their limits. You must also employ responsible, sober volunteers.

You can view a copy of the act on the Nova Scotia government website at <www.gov.ns.ca/legislature/legc/>.

Directors and Officers Insurance

Non-profit organizations are increasingly concerned about the personal liability risk to directors or board members. As the board is legally responsible for the operation of the organization, a claim could be made against them as a group. Such claims, if upheld in the courts, could mean that one's personal assets are at risk for decisions made on behalf of the organization.

Directors and officers insurance protects board members from the costs associated with being sued separately from the organization.

While it is rare for board members to be sued along with the organization, the worry that this could happen has made it more difficult to recruit volunteers to serve on boards. Those who volunteer for board membership or serve in management positions give generously of their time and talents. They should not be asked to put their personal assets at risk each time they make a decision for your organization.

Volunteer Canada currently has a national directors and officers program available to all non-profit organizations in Canada. Visit their website at <www.volunteer.ca> and look for more information in the board volunteering section. The site also has a useful section on volunteer screening.

From whom should I buy my insurance?

In Nova Scotia all insurance is provided by private, non-government insurance companies. They use brokers, agents, and service representatives to sell their insurance policies. They compete for your business.

An insurance **broker** sells insurance on behalf of a number of different insurance companies. It's always wise to ask a broker who and how many different insurance companies they will contact on your behalf. You will want to make sure they shop around with many different insurance companies for the best value for you.

An insurance **agent** represents a single company and may deal with different types of policies on behalf of that company. Shop around to different insurance companies and find the

best service and policy for you. It is also wise to ask friends, family, and co-workers about their experiences and for their recommendations. Be aware that the lowest price isn't always the best policy for you. When you're shopping around, make sure you talk to representatives about your specific needs.

What are underwriting rules?

Underwriters are the insurance company's research experts. Underwriting rules are used by underwriters to assess the risk they are being asked to take. In Nova Scotia, these rules are established by the insurance companies and are based on their own business needs.

Underwriting is essentially an exercise in assessing risk. The guidelines and rate structures established by insurance companies are based on the past loss experience of many years. They help insurance companies identify high-risk clients or organizations. For example a volunteer hockey association is probably more likely to be sued for a physical injury than a volunteer choir group and may have to pay a higher premium for coverage.

Once an underwriter has assessed your application, the company will decide whether to offer you a policy, and at what price or premium. If you have made your inquiry through an independent broker, you should expect that broker to get quotes on your file from different companies to get you the best deal.

Insurance agents or brokers can be a valuable resource. You should take advantage of their expertise.

Do insurance companies have to sell me insurance?

No. Insurance (other than auto insurance) is not mandatory in Nova Scotia. Insurance companies are not required to insure anybody.

Hints for insurance buying

First contact an umbrella organization, if you have one, to see if they have established a group package through which you may buy insurance at a discount. If your umbrella group doesn't have such a plan, you should encourage them to look into it. Recreation Nova Scotia is a leader in this area. They offer a general liability insurance program for members performing low-risk activities. For more information visit the general liability insurance section of their website at <www.recreationns.ns.ca/program/general.htm>.

Here are some other tips to keep your risk low and achieve the best rates:

- Shop around for the best price and service for your needs. Ask for brochures, check the yellow pages, or search the Internet for Nova Scotia insurance representatives.
- Start your search for insurance early to avoid having to accept unsatisfactory coverage because of time constraints.
- Don't be discouraged after only a few contacts. Make a real effort to contact as many prospective insurers as possible.
- Consider higher deductibles. By contributing more toward the cost of a claim if you have an accident, you should receive a lower premium.
- Don't pay for coverage that you don't need. For example, if your organization or event does not involve money, you probably don't need insurance against fraud.
- Pay your premium on time.
- Know from whom you're buying insurance. Do they represent one company or many?

- Ask your broker or agent for the names of other non-profit organizations for whom they have provided coverage. Check with those organizations to see if they are satisfied customers.

What is the role of the new Nova Scotia Insurance Review Board?

The Government of Nova Scotia recently established the Nova Scotia Insurance Review Board to protect the public interest and to ensure fairness in the insurance industry. The board was set up to deal primarily with auto insurance rates (the only insurance that is mandatory in Nova Scotia). The Insurance Review Board can be contacted at 902-424-8685 or <nsirb@gov.ns.cs>.

What to do if there are problems

Insurance operations in Nova Scotia are generally overseen by Office of the Superintendent of Insurance. If you have a complaint about the actions of an insurance company, agent, broker, or adjuster, first take your complaint to the company. The company should have an ombudsperson to help you. There is also a toll-free, industry-supported ombudsperson service available at 1-800-565-7189 (email: consumercentreatlantic@gio-scad.org)

If you are not happy with the industry's response, then contact us.

Direct your complaint to:
Office of the Superintendent of Insurance
P.O. Box 2271
Halifax, NS B3J 3C8
Phone: (902) 424-6331
Fax: (902) 424-1298
Email: fininst@gov.ns.ca

Commonly used insurance terms

absolute liability

the insurance company's responsibility to a third party regardless of any statutory breaches on the part of the insured.

actual cash value

replacement or market value of damaged property less depreciation.

adjuster

a person who acts on behalf of an insurance company to evaluate and settle claims.

agent/broker

a person who solicits or offers insurance products on behalf of insurance companies.

cancellation

the termination of an insurance contract before it expires.

cancellation (flat)

an insurance company cancels a policy as of its effective date, without charging any premium to you. This may happen if an insurance company realizes it has given an incorrect quote. It may cancel the policy and refund all your money. It may also do this if they void the policy. It may void a policy if it determines that not all material information was provided to them to properly assess the risk.

cancellation (pro-rata)

an insurance company cancels a policy and adjusts the premium in proportion to the time the coverage was in effect. It refunds a portion of the premium back to you.

cancellation (short-rate)

an insurance company cancels a policy at your request before the expiry date and charges a premium larger than what would be applicable for the period insured. This must be provided for in the policy. Generally, this increased charge is made because fixed expenses have

been incurred by the insurance company. Insurance companies often use fixed rate tables to calculate the premium they have earned.

claim

a demand for payment for a loss under an insurance policy

deductible

the amount of loss that you are required to pay. For example, if you have $1000 in insured damage to your facility from vandalism and your deductible is $500, you will be responsible for $500 of the repair cost. The insurance company will pay for the other $500.

endorsement

a form amending the terms of the policy, sometimes called a rider.

lapse in coverage

companies rate a policy based on continuous insurance history. A short lapse in coverage is no longer a reason to decline someone insurance. It is, however, a factor in the rate charged by an insurer. Before canceling a policy for a short term, check with your insurance broker to determine how the lapse in coverage will affect you and your future insurability.

premium

the price you pay for the insurance policy, based on the risk assessment.

third party liability insurance

protects the insured against liability arising out of bodily injury or property damage to others. The insured and the insurer are the first and second parties to the insurance contract.

underwriter

a person who decides if an insurance risk is acceptable. The underwriter decides in what amount and on what terms the insurance company will accept the risk. Also called an insurer.

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